

TAB 247

**In The Matter Of:**

*AHERF v.  
PRICEWATERHOUSECOOPERS*

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*RICHARD SHANNON, M.D.  
March 15, 2004*

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SHANNON, M.D., RICHARD - Vol. 1



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|--|---|
| <p>1 Q. Do you recall when you first heard a concern<br/>2 about the financial circumstances in the east?<br/>3 A. Again --<br/>4 MS. MEADEN: I'm going to object to<br/>5 the form.<br/>6 A. -- my recollection would be late 1997.<br/>7 Q. And would these concerns be something that you<br/>8 learned about at AGH board meetings or<br/>9 elsewhere?<br/>10 A. No, by late 1997 in the time period I'm<br/>11 recalling, there were newspaper articles about<br/>12 layoffs in hospitals in the east. It was<br/>13 pretty public knowledge that operations in the<br/>14 east were struggling.<br/>15 Q. And did you -- layoffs, for example, did you<br/>16 learn about the layoffs from reading the<br/>17 newspaper?<br/>18 A. I can't recall whether there was any other<br/>19 source of that information. Certainly I knew<br/>20 about it from the newspaper, but whether<br/>21 someone else told me they were happening the<br/>22 day before -- I also recall Mr. Abdelhak having<br/>23 a meeting in which he announced the layoffs.<br/>24 Q. And who was at that -- that meeting?<br/>25 A. This was a public session, Mr. Abdelhak in</p> | <p>1 circumstances in the east were very strapped.<br/>2 Q. Okay. When you were on the AHERF board, as<br/>3 part of the board materials that were sent to<br/>4 you in advance of meetings, do you recall there<br/>5 being any AHERF financial statements as part of<br/>6 those materials?<br/>7 A. Yes.<br/>8 Q. And would you spend any time reading, going<br/>9 through those financial statements in advance<br/>10 of the meetings?<br/>11 A. Yes.<br/>12 Q. And was there any particular part that you<br/>13 would focus on, any particular line item or<br/>14 section of the financial statements that you<br/>15 would focus on when you were reading them?<br/>16 A. I suppose that my interests were principally<br/>17 focused on -- in these complicated consolidated<br/>18 financial statements -- on the western<br/>19 entities, and I most distinctly recall seeing<br/>20 operating statements, not balance sheets.<br/>21 Q. And just to be clear, I think you said this<br/>22 earlier, but you don't recall seeing any<br/>23 financial statements for AHERF as a whole<br/>24 during calendar year 1997?<br/>25 A. Correct.</p> |
| Page 46  | Page 48   |
| <p>1 front of an auditorium of lots of people in the<br/>2 east, and it was televised back to the west.<br/>3 Q. And where were you when -- where was the venue<br/>4 for watching it in the west?<br/>5 A. I can't recall. My guess is McGovern<br/>6 Auditorium. There were a number of venues<br/>7 where telecommunication hookups to the east<br/>8 were available.<br/>9 Q. Do you recall when this -- this announcement<br/>10 took place?<br/>11 A. No.<br/>12 Q. Did Mr. Abdelhak say why he had made the<br/>13 decision to lay people off?<br/>14 A. Declining reimbursements and cuts in Medicare.<br/>15 Q. Do you remember anything else about -- anything<br/>16 else stand out about what he said?<br/>17 A. No.<br/>18 Q. And was there any question and answer period or<br/>19 other time for reaction after his address?<br/>20 A. Not that I can recall.<br/>21 Q. And did you have any kind of reaction or<br/>22 thoughts after learning about these layoffs<br/>23 with respect to the financial condition of<br/>24 AHERF?<br/>25 A. My general impression was that financial</p>   | <p>1 Q. Let me just show you a couple of documents<br/>2 here. First one has been previously marked as<br/>3 Exhibit 2101. This is AHERF consolidated<br/>4 financial statements, September 30th, 1997, and<br/>5 it's dated October 28th, 1997. Just take a<br/>6 look through that, Dr. Shannon.<br/>7 MR. McCLENAHAN: Is there anything in<br/>8 particular you want him to look at?<br/>9 Q. Well, yes. I can tell you right now what my<br/>10 question's going to be, which is have you ever<br/>11 seen this before, but let me focus you on a<br/>12 particular part that may or may not trigger a<br/>13 reaction.<br/>14 If you go to the second page of the<br/>15 document, page 1a.<br/>16 MR. McCLENAHAN: 791 at the bottom.<br/>17 MR. FRIESEN: Right, 791 at the<br/>18 bottom.<br/>19 Q. This is the AHERF consolidating statement of<br/>20 operations for the three months ended September<br/>21 30th, 1997, and on the left-hand column, a<br/>22 little hard to read in places, but it says net<br/>23 income/loss.<br/>24 A. Mm-hmm.<br/>25 Q. And then the far right under AHERF</p>  |

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| <p>1 consolidated, again, it's hard to read, but I</p> <p>2 will tell you or I'll represent to you that it</p> <p>3 says \$42,571,000 net loss?</p> <p>4 A. Mm-hmm.</p> <p>5 Q. Have you ever seen this before?</p> <p>6 A. No, sir.</p> <p>7 Q. Okay. You can put that aside.</p> <p>8 I'll show you another document that's</p> <p>9 Exhibit 1653. These are the board materials</p> <p>10 for a meeting of the audit committee of AHERF</p> <p>11 for October 15th, 1997. Now, I know you</p> <p>12 weren't on the audit committee and you weren't</p> <p>13 even on the board of AHERF as of this date</p> <p>14 but --</p> <p>15 MR McCLENAHAN: But he's going to</p> <p>16 ask you questions anyway.</p> <p>17 Q. -- but I'm going to ask you a question anyway.</p> <p>18 Just give me one second.</p> <p>19 If you turn to the page ending in</p> <p>20 1967, we have the beginning of a draft of the</p> <p>21 consolidated financial statements for the year</p> <p>22 ended June 30th, 1997, and it goes on and on</p> <p>23 and on, and, you know, you can look at as much</p> <p>24 of this as you want to, but my question, just</p> <p>25 to be sure, is whether you've seen this before.</p> | <p>1 Hospitals West. I can't recall, but he around</p> <p>2 or about that time held those positions.</p> <p>3 Q. And Mr. Fletcher?</p> <p>4 A. Was the chairman of the board of Forbes</p> <p>5 Regional Hospital.</p> <p>6 Q. And what exactly did Mr. Roth say other than it</p> <p>7 was a loan that was repaid?</p> <p>8 A. I can't recall exactly. I can tell you what I</p> <p>9 remember. Mr. Roth and Mr. Fletcher were both</p> <p>10 upset that the Mellon note had been repaid</p> <p>11 using funded depreciation from the Forbes</p> <p>12 Regional and Allegheny Valley accounts.</p> <p>13 Q. And did this upset you as well?</p> <p>14 A. Yes.</p> <p>15 Q. At the time did anyone say whose decision it</p> <p>16 was to make this repayment from those accounts?</p> <p>17 A. My recollection is it was Mr. Abdelhak's</p> <p>18 decision.</p> <p>19 Q. And did you express any concern to anyone other</p> <p>20 than Mr. Roth or Mr. Forbes about the Mellon</p> <p>21 Bank loan repayment after it happened?</p> <p>22 A. It was Mr. Roth and Mr. Fletcher.</p> <p>23 Q. I'm sorry, Mr. Fletcher.</p> <p>24 A. And the -- it was the subject of further</p> <p>25 discussion among myself, other members of the</p> |
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| <p>1 A. No, sir.</p> <p>2 MS. MEADEN: In draft form?</p> <p>3 MR. FRIESEN: Yes.</p> <p>4 A. No, sir, I have not seen this document before.</p> <p>5 Q. Okay. You just saved yourself some time.</p> <p>6 MR. McCLENAHAN: I think he's getting</p> <p>7 the drift of that.</p> <p>8 Q. Do you remember ever learning that in April of</p> <p>9 1998 AHERF repaid a loan to Mellon Bank?</p> <p>10 A. Yes.</p> <p>11 Q. And when did you learn about that?</p> <p>12 A. The last week of April, 1998.</p> <p>13 Q. And how did -- how did you learn about that?</p> <p>14 A. I learned about that from Mr. Barry Roth and</p> <p>15 Mr. Bob Fletcher.</p> <p>16 Q. And did they come to your office, or what kind</p> <p>17 of meeting was this?</p> <p>18 A. No, we were at a meeting together outside of</p> <p>19 the hospital. Mr. Roth received a phone call</p> <p>20 and then proceeded to tell Mr. Fletcher and me</p> <p>21 about the loan repayment.</p> <p>22 Q. What was Mr. Roth's position at the time?</p> <p>23 A. He was -- well, Mr. Roth was probably still the</p> <p>24 CEO of Forbes Regional Medical Center but was</p> <p>25 made also the head of Allegheny University</p>            | <p>1 medical staff for the next couple of weeks.</p> <p>2 Q. And do you remember which other members of the</p> <p>3 medical staff?</p> <p>4 A. The executive committee of the medical staff</p> <p>5 president, the president of the AGH medical</p> <p>6 staff.</p> <p>7 Q. Okay. Now, the executive committee of the</p> <p>8 medical staff, the president of the executive</p> <p>9 committee --</p> <p>10 A. Yes.</p> <p>11 Q. -- was who?</p> <p>12 A. Dr. Heckler.</p> <p>13 Q. How do you spell that?</p> <p>14 A. H-e-c-k-l-e-r.</p> <p>15 Q. Okay. And the other person?</p> <p>16 A. Dr. Ray.</p> <p>17 Q. R-a-y?</p> <p>18 A. Yes.</p> <p>19 Q. And what was --</p> <p>20 A. He was the president of the medical staff.</p> <p>21 Q. Okay. Anyone else?</p> <p>22 A. There were certainly other members of the --</p> <p>23 the chairman of other departments with whom</p> <p>24 this was discussed, notably Dr. McGovern.</p> <p>25 Q. Which department was he the chair of?</p>   |

13 (Pages 49 to 52)

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| <p style="text-align: right;">Page 53</p> <p>1 A. Cardiothoracic surgery.</p> <p>2 Q. Anyone else?</p> <p>3 A. Those are the ones I specifically remember.</p> <p>4 Q. And what was the substance of your discussions</p> <p>5 with Drs. Heckler and Ray? Or if they were</p> <p>6 different discussions, let me know.</p> <p>7 A. Mr. Abdelhak's decision to take funded</p> <p>8 depreciation without board approval was in</p> <p>9 direct violation of a resolution that had been</p> <p>10 passed by the boards that no money was to be</p> <p>11 taken and upstreamed to AHERF without board</p> <p>12 permission.</p> <p>13 Q. And the three of you agreed on that --</p> <p>14 A. Yes.</p> <p>15 Q. -- position? And did you have the same,</p> <p>16 similar conversation with Dr. McGovern?</p> <p>17 A. Yes.</p> <p>18 Q. Were there any other subjects other than the</p> <p>19 one that you just mentioned about the Mellon</p> <p>20 Bank repayment that came up during those</p> <p>21 conversations, any of those conversations?</p> <p>22 A. Yeah, the tenor of the discussion was more</p> <p>23 about Mr. Abdelhak taking money without board</p> <p>24 permission, prior board permission, less about</p> <p>25 the Mellon Bank repayment, and growing concerns</p> | <p style="text-align: right;">Page 55</p> <p>1 period of time?</p> <p>2 MS MEADEN: Objection, foundation.</p> <p>3 A. I remember a discussion in the middle of May</p> <p>4 with Mr. Ira Gumberg in which myself,</p> <p>5 Dr. McGovern, Dr. Jeff Cohen met with</p> <p>6 Mr. Gumberg to express our concerns with</p> <p>7 Mr. Abdelhak's behavior, in -- regarding the</p> <p>8 repayment of the Mellon loan. Dr. Jeff Cohen</p> <p>9 is the head of urology.</p> <p>10 Q. And what was the -- first of all, where was the</p> <p>11 meeting with Mr. Gumberg?</p> <p>12 A. The meeting was in my office.</p> <p>13 Q. And it was just the four of you in the meeting?</p> <p>14 A. To the best of my recollection.</p> <p>15 Q. And what did you say and what did other people</p> <p>16 say at the meeting, to the best of your</p> <p>17 recollection?</p> <p>18 A. The focus of the meeting was, again, that we</p> <p>19 could no longer tolerate Mr. Abdelhak's what</p> <p>20 appeared to be disregard for board mandate and</p> <p>21 that as physician leaders he had basically lost</p> <p>22 the confidence to lead the organization, our</p> <p>23 confidence to lead the organization.</p> <p>24 Q. Now, was there anything other than the Mellon</p> <p>25 Bank loan and the taking the money from AGH and</p> |
| <p style="text-align: right;">Page 54</p> <p>1 that Mr. Abdelhak was operating outside of what</p> <p>2 we felt was -- should be his authority in this</p> <p>3 regard given the circumstances in the</p> <p>4 organizations at that time.</p> <p>5 Q. So would that concern then also include the</p> <p>6 transfers that we talked about earlier --</p> <p>7 A. Yes.</p> <p>8 Q. -- from AGH to AHERF?</p> <p>9 A. Following the transfer of money from AGH to</p> <p>10 AHERF, there were extensive discussions at the</p> <p>11 AGH board and the requirement that Mr. Abdelhak</p> <p>12 report to the boards before those moneys be</p> <p>13 moved.</p> <p>14 When he repaid the Mellon loan, by</p> <p>15 doing -- by taking money from Forbes and</p> <p>16 Allegheny Valley, as a board member and a</p> <p>17 physician leader, I felt he was in violation of</p> <p>18 that, and I shared that with the medical staff</p> <p>19 leadership.</p> <p>20 MS MEADEN: And you shared that</p> <p>21 with, I'm sorry?</p> <p>22 THE WITNESS: With the medical staff</p> <p>23 leadership, Dr. Ray, Dr. Heckler.</p> <p>24 Q. Did any other not -- did any nonphysician board</p> <p>25 members express the same concern during this</p>   | <p style="text-align: right;">Page 56</p> <p>1 transferring it to AHERF that caused you to</p> <p>2 lose confidence in Mr. Abdelhak at this time?</p> <p>3 A. I think the growing concerns about the</p> <p>4 financial problems in the east and how they</p> <p>5 were being managed.</p> <p>6 Q. Had Abdelhak said that he had some kind of plan</p> <p>7 to fix the growing problems in the east?</p> <p>8 A. Yes.</p> <p>9 Q. And what was that plan to your understanding?</p> <p>10 A. My recollection is the plan involved selling</p> <p>11 assets in the east to a for-profit company.</p> <p>12 Q. Was this the Vanguard entity?</p> <p>13 A. Yes.</p> <p>14 Q. And I take it that you didn't have much</p> <p>15 confidence that this was going to happen, or</p> <p>16 what was your concern about that?</p> <p>17 A. I think there were growing indications that the</p> <p>18 deal was not going to happen.</p> <p>19 Q. Had you heard any concerns about vendors not</p> <p>20 being paid?</p> <p>21 A. Not at that time. I don't --</p> <p>22 Q. Other than what you've already testified to,</p> <p>23 were there any other issues that you remember</p> <p>24 were on your mind when you decided that you had</p> <p>25 lost confidence in Mr. Abdelhak?</p>   |

14 (Pages 53 to 56)



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| <p style="text-align: right;">Page 57</p> <p>1 A. No.</p> <p>2 Q. Did you give Mr. Gumberg some kind of advice as</p> <p>3 to what he should do?</p> <p>4 A. In that meeting we used Mr. Gumberg as a</p> <p>5 sounding board for what we felt needed to be</p> <p>6 done. We felt Mr. Abdelhak needed to resign,</p> <p>7 step down. We conveyed that to Mr. Gumberg at</p> <p>8 that meeting, myself as one trustee to another.</p> <p>9 We discussed ways in which that might happen.</p> <p>10 Q. What do you remember about those ways?</p> <p>11 A. Well, I only remember the way we ended up doing</p> <p>12 it, I don't remember what the other options</p> <p>13 were, which Mr. Gumberg agreed was the proper</p> <p>14 approach, and that was to -- for senior leaders</p> <p>15 of the medical staff to meet with Bill Snyder</p> <p>16 and to ask him to seek Mr. Abdelhak's</p> <p>17 resignation.</p> <p>18 Q. Why did you choose Mr. Gumberg of all of the</p> <p>19 trustees to go to?</p> <p>20 A. I had worked with Mr. Gumberg on the AGH board</p> <p>21 from the very beginning. I trusted</p> <p>22 Mr. Gumberg. I think he had a very good</p> <p>23 understanding of both physicians and what</p> <p>24 physicians needed to be successful at AGH, and</p> <p>25 I knew he was deeply engaged in what was going</p> | <p style="text-align: right;">Page 59</p> <p>1 Q. Did you ever speak to -- strike that.</p> <p>2 At some point you actually went and</p> <p>3 spoke to Mr. Snyder?</p> <p>4 A. Yes, sir.</p> <p>5 Q. Okay. Before you spoke to Mr. Snyder, either</p> <p>6 before or after you spoke to Mr. Gumberg, did</p> <p>7 you speak to Mr. Frank Cahouet at all --</p> <p>8 A. No, sir.</p> <p>9 Q. -- about this issue?</p> <p>10 A. No, sir.</p> <p>11 Q. Did you ever go to Mr. Cahouet's home during</p> <p>12 1998 before the bankruptcy?</p> <p>13 A. I can't recall.</p> <p>14 Q. Between the time that you had this conversation</p> <p>15 with Mr. Gumberg in the middle of May and the</p> <p>16 time that you spoke to Mr. Snyder -- which was</p> <p>17 when approximately?</p> <p>18 A. Sunday of Memorial Day weekend 1998 at around</p> <p>19 noon.</p> <p>20 Q. Okay. Between that time did you speak with any</p> <p>21 other trustees or physicians with respect to</p> <p>22 your loss of confidence in Mr. Abdelhak?</p> <p>23 A. I did speak with other physicians. We wanted</p> <p>24 to make sure that we had the support of all of</p> <p>25 the chairs of the departments at AGH.</p>   |
| <p style="text-align: right;">Page 58</p> <p>1 on.</p> <p>2 Q. How long did the meeting with Mr. Gumberg last?</p> <p>3 A. I don't recall. I would say not more than an</p> <p>4 hour. This was not a lengthy discussion.</p> <p>5 Q. And what did Mr. Gumberg -- was it mostly you</p> <p>6 doing the talking --</p> <p>7 A. Mm-hmm.</p> <p>8 Q. -- on the physician side?</p> <p>9 A. Yes.</p> <p>10 Q. Did any of the -- Dr. Cohen or Dr. McGovern say</p> <p>11 anything?</p> <p>12 A. I'm sure they did, but I don't recall.</p> <p>13 Q. And what did Mr. Gumberg, what was his</p> <p>14 reaction?</p> <p>15 A. I think Mr. Gumberg was concerned about the</p> <p>16 state of the organization. He was I think</p> <p>17 deeply concerned to hear that the physicians</p> <p>18 had lost faith in Mr. Abdelhak and believed</p> <p>19 that without the physicians' support,</p> <p>20 Mr. Abdelhak could not continue to manage, and</p> <p>21 as I said, we discussed several possible ways</p> <p>22 to approach this. It was on Mr. Gumberg's</p> <p>23 recommendation that we, the physician</p> <p>24 leadership, meet with Mr. Snyder that we agreed</p> <p>25 to proceed.</p>   | <p style="text-align: right;">Page 60</p> <p>1 Q. And did you have that support?</p> <p>2 A. Yes, sir, and I also spoke with the head of</p> <p>3 the -- the president of the medical staff at</p> <p>4 Hahnemann Hospital in Philadelphia.</p> <p>5 Q. And who was that?</p> <p>6 A. I can't recall his name. I can see his face,</p> <p>7 but I can't recall his name.</p> <p>8 Q. And did you get that person's support too?</p> <p>9 A. Yes. With respect to your question about</p> <p>10 trustees, I can't recall. The -- the</p> <p>11 recollection I have most clear is the meeting</p> <p>12 with Dr. Gumberg.</p> <p>13 Q. And how did you explain your concerns to the</p> <p>14 chairs of the AGH departments, the ones other</p> <p>15 than Dr. Cohen and Dr. McGovern, when you spoke</p> <p>16 to them to get their support?</p> <p>17 MR. McCLENAHAN: You mean beyond what</p> <p>18 he's already testified to you about?</p> <p>19 A. I basically shared with them what I told you,</p> <p>20 and that is that money had been upstreamed to</p> <p>21 AHERF from AGH, that the board had passed a</p> <p>22 resolution requiring Mr. Abdelhak to get board</p> <p>23 approval before doing same, that he had gone</p> <p>24 ahead and done so without board approval, and</p> <p>25 that coupled with the failing circumstances in</p> |

15 (Pages 57 to 60)

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| <p style="text-align: right;">Page 61</p> <p>1 the east necessitated a change in leadership.</p> <p>2 Q. Prior to your meeting on Memorial Day weekend</p> <p>3 1998 with Mr. Snyder, are you aware of any</p> <p>4 other trustees, apart from your conversation</p> <p>5 with Dr. Gumberg where you raised the issue,</p> <p>6 discussing potentially terminating</p> <p>7 Mr. Abdelhak?</p> <p>8 A. To the best of my recollection, it was just</p> <p>9 Mr. Gumberg, but that's the best of my</p> <p>10 recollection.</p> <p>11 Q. And when you say it was just Mr. Gumberg,</p> <p>12 that's the conversation you referenced</p> <p>13 earlier --</p> <p>14 A. Yes.</p> <p>15 Q. -- where you raised your concern? Prior to</p> <p>16 learning of the Mellon Bank repayment from</p> <p>17 Mr. Roth, did you have full confidence in</p> <p>18 Mr. Abdelhak's ability to lead the organization</p> <p>19 and make it successful?</p> <p>20 MR. McCLENAHAN: Could you read back</p> <p>21 that question, please?</p> <p>22 - - - -</p> <p>23 (The record was read back by the Reporter.)</p> <p>24 - - - -</p> <p>25 A. I think I had growing concerns about</p>  | <p style="text-align: right;">Page 63</p> <p>1 and whether it was appropriate or inappropriate</p> <p>2 to do it without board approval?</p> <p>3 A. Not that I recall.</p> <p>4 Q. Let's move on to the meeting that you had with</p> <p>5 Mr. Snyder. You told me when it was, it was</p> <p>6 Memorial Day weekend of 1998. Do you recall</p> <p>7 where it was?</p> <p>8 A. In my home.</p> <p>9 Q. And how did you schedule the meeting?</p> <p>10 A. I called Bill Snyder on Saturday.</p> <p>11 Q. And what did you say to him?</p> <p>12 A. That Dr. McGovern, Dr. Cohen and I wanted to</p> <p>13 meet with him to discuss him seeking</p> <p>14 Mr. Abdelhak's resignation.</p> <p>15 Q. And during that phone conversation, what did he</p> <p>16 say back to you?</p> <p>17 A. He was immediately responsive, said he would</p> <p>18 make arrangements to meet with us on the</p> <p>19 weekend.</p> <p>20 Q. How long did the telephone conversation last?</p> <p>21 A. Five minutes.</p> <p>22 Q. And did you explain during the telephone</p> <p>23 conversation any more detail about why you</p> <p>24 wanted to seek -- him to seek Mr. Abdelhak's</p> <p>25 resignation?</p> |
| <p style="text-align: right;">Page 62</p> <p>1 Mr. Abdelhak.</p> <p>2 Q. And did those concerns start with learning at</p> <p>3 the meeting on the last Friday in October with</p> <p>4 Connie Cibrone about the -- what you learned</p> <p>5 about the funded depreciation accounts being</p> <p>6 transferred?</p> <p>7 A. Again, when I learned of that, Mr. Abdelhak's</p> <p>8 response was that he would pay it back.</p> <p>9 Mr. Abdelhak was attempting to sell assets in</p> <p>10 the east to raise capital, and I presumed that</p> <p>11 that was going to be a strategy that would</p> <p>12 recover some of these assets.</p> <p>13 Nonetheless, my faith in Mr. Abdelhak</p> <p>14 was certainly shaken by the growing revelations</p> <p>15 of problems in the east, and once it was clear</p> <p>16 that the Vanguard deal was not going to happen,</p> <p>17 there did not appear to be any other credible</p> <p>18 plan in the works to recover those assets.</p> <p>19 That, coupled with the fact, again,</p> <p>20 that he had deliberately ignored a board</p> <p>21 resolution requiring him to get permission</p> <p>22 before taking money raised serious concerns, as</p> <p>23 a board member and as a physician.</p> <p>24 Q. Did you ever hear any response from</p> <p>25 Mr. Abdelhak about the Mellon Bank repayment</p> | <p style="text-align: right;">Page 64</p> <p>1 A. I don't recall, but there were certainly</p> <p>2 growing concerns throughout the hospital about</p> <p>3 Mr. Abdelhak's ability to lead.</p> <p>4 Q. Right. I'm just trying to figure out if that's</p> <p>5 something that you said on the phone to him or</p> <p>6 not?</p> <p>7 A. No, but I assumed Mr. Snyder was aware of those</p> <p>8 growing concerns, and by agreeing to meet with</p> <p>9 us promptly, I assumed that he understood why.</p> <p>10 Q. Well --</p> <p>11 A. He didn't ask me, gee, Rick, why do you want to</p> <p>12 do this. It was as if he understood that there</p> <p>13 were these concerns.</p> <p>14 Q. And that's why you say you assume that he was</p> <p>15 aware of it?</p> <p>16 A. Mm-hmm.</p> <p>17 Q. Because he wasn't surprised?</p> <p>18 A. Yeah.</p> <p>19 Q. So was it the next day that he came to your</p> <p>20 home?</p> <p>21 A. Yes.</p> <p>22 Q. He came by himself?</p> <p>23 A. Yes.</p> <p>24 Q. And how long did the meeting take place, how</p> <p>25 long did the meeting take?</p>  |





RICHARD SHANNON, M.D.

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| <p style="text-align: right;">Page 85</p> <p>1 anything in these three points on the first</p> <p>2 page that you would disagree with, even though</p> <p>3 you don't remember whether Mr. Sanzo made the</p> <p>4 points?</p> <p>5 MS. MEADEN: Objection.</p> <p>6 A. As the person that led the effort to oust</p> <p>7 Mr. Abdelhak as both a physician leader and a</p> <p>8 member of the board of trustees, I clearly</p> <p>9 understood that there was substantial issues</p> <p>10 with the way in which the east had been</p> <p>11 managed. That I would recount these as those</p> <p>12 specific explanations, I can't say. It was</p> <p>13 very clear that the east had been mismanaged,</p> <p>14 and that was what, among those other things,</p> <p>15 caused us to act.</p> <p>16 MR. FRIESEN: Let me take a short</p> <p>17 break, okay, and I may be able to wrap this up</p> <p>18 relatively quickly.</p> <p>19 THE VIDEOGRAPHER: We are going off</p> <p>20 the record at 11:55.</p> <p>21 -----</p> <p>22 (There was a recess in the proceedings.)</p> <p>23 -----</p> <p>24 THE VIDEOGRAPHER: We are back on the</p> <p>25 record at 12:02.</p>                        | <p style="text-align: right;">Page 87</p> <p>1 to just gather up my documents and --</p> <p>2 THE WITNESS: Sure.</p> <p>3 MS. MEADEN: -- get ready and then</p> <p>4 we'll start.</p> <p>5 THE VIDEOGRAPHER: Going off the</p> <p>6 record at 12:03.</p> <p>7 -----</p> <p>8 (There was a recess in the proceedings.)</p> <p>9 -----</p> <p>10 THE VIDEOGRAPHER: We are back on the</p> <p>11 record at 12:10.</p> <p>12 -----</p> <p>13 EXAMINATION</p> <p>14 -----</p> <p>15 BY MS. MEADEN:</p> <p>16 Q. Good afternoon, Dr. Shannon. We met</p> <p>17 previously. My name is Laura Meaden, and I'm</p> <p>18 from the firm of Jones Day, and I represent the</p> <p>19 Plaintiff in this action, The Official</p> <p>20 Committee of Unsecured Creditors of AHERF, and</p> <p>21 you will be happy to know that I have</p> <p>22 considerably fewer questions for you this</p> <p>23 afternoon than what Mr. Friesen did.</p> <p>24 I think you testified earlier,</p> <p>25 actually several times, that you viewed the</p>  |
| <p style="text-align: right;">Page 86</p> <p>1 BY MR. FRIESEN:</p> <p>2 Q. Dr. Shannon, while you were on the AHERF board,</p> <p>3 what was your understanding of the role of the</p> <p>4 AHERF board as opposed to AHERF management?</p> <p>5 A. The board had oversight over the AHERF</p> <p>6 foundation and its management team.</p> <p>7 Q. And so what sorts of things would that entail,</p> <p>8 that oversight?</p> <p>9 A. Well, again, I think it would include</p> <p>10 financial, clinical and quality initiatives</p> <p>11 which would be characteristics of most</p> <p>12 healthcare institution boards.</p> <p>13 Q. Okay. Did you meet with any attorneys from the</p> <p>14 law firm of Jones Day before today's deposition</p> <p>15 in preparation --</p> <p>16 A. No, sir.</p> <p>17 Q. -- of the deposition?</p> <p>18 A. No, sir.</p> <p>19 Q. Did you speak with any of them on the phone?</p> <p>20 A. No, sir.</p> <p>21 MR. FRIESEN: Okay. I don't have any</p> <p>22 further questions at this time. I might have</p> <p>23 some more once Ms. Meaden is through with you,</p> <p>24 but we'll wait and see.</p> <p>25 MS. MEADEN: Can I have five minutes</p> | <p style="text-align: right;">Page 88</p> <p>1 role of the AGH board and your role as a board</p> <p>2 member particularly as one of oversight of the</p> <p>3 financial, clinical, and quality matters that</p> <p>4 affected the hospital, namely AGH, and then the</p> <p>5 same was true when you were serving as a member</p> <p>6 of the board of AHERF; correct?</p> <p>7 A. Correct.</p> <p>8 Q. And did you understand in your role as a board</p> <p>9 member of both AGH and AHERF that there were</p> <p>10 outside professionals who were available to</p> <p>11 advise the board on various matters?</p> <p>12 A. Yes.</p> <p>13 Q. In particular, financial matters?</p> <p>14 A. Yes.</p> <p>15 Q. And you understood that AHERF had retained an</p> <p>16 outside auditing firm to review the financial</p> <p>17 statements of AHERF and the entities within the</p> <p>18 AHERF system?</p> <p>19 MR. FRIESEN: Objection.</p> <p>20 A. Yes.</p> <p>21 Q. Did you understand that in the late -- or in</p> <p>22 the 1997 time period when you believe you</p> <p>23 joined those boards that the outside auditors</p> <p>24 were the firm of Coopers &amp; Lybrand?</p> <p>25 A. Yes.</p> |

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1 Q. And you understood that Coopers & Lybrand was  
 2 an independent audit firm; correct?  
 3 A. Yes.  
 4 Q. Can you tell me what significance, if any, that  
 5 had to you, that Coopers & Lybrand was  
 6 independent from financial management of AHERF?  
 7 A. At our board meetings we would receive what  
 8 were referred to as unaudited financials that  
 9 would include the operating performance and the  
 10 balance sheets of the respective entities and  
 11 specifically in this case AGH, and that at the  
 12 end of the fiscal year, those financials would  
 13 be audited by an outside firm that would attest  
 14 to the fact that the data that had been  
 15 presented was correct.  
 16 Q. And did that give you any level of comfort with  
 17 respect to the matters within the financial  
 18 statements, that they were being reviewed by an  
 19 outside independent --  
 20 A. Yes.  
 21 Q. -- firm?  
 22 A. Yes.  
 23 Q. Again, can you explain for me why that was?  
 24 A. Well, particularly as a physician, I think  
 25 knowing that the financial statements as they

1 board if Coopers & Lybrand had determined that  
 2 the financial information as presented on AHERF  
 3 and its affiliates' financial statements was in  
 4 some way not accurate?  
 5 A. Yes.  
 6 MR. FRIESEN: Objection.  
 7 Q. And at any time during your service on the AGH  
 8 board or the AHERF board, did you ever come to  
 9 learn that anyone from Coopers & Lybrand had  
 10 ever informed anyone on any of the AHERF boards  
 11 or committees that the audited financial  
 12 statements were in some way not accurate?  
 13 A. I was never so informed, but I want to comment  
 14 that I did not see the audited financial  
 15 statements of either 1996 or 1997.  
 16 Q. And you had never heard though from anyone else  
 17 who had seen the audited financial statements  
 18 for either fiscal year '96 or '97 that at any  
 19 time someone from Coopers & Lybrand had advised  
 20 the board or a committee of the board that  
 21 there were any misstatements or inaccuracies in  
 22 those financial statements?  
 23 A. I was never made aware of any such disclosures.  
 24 Q. Now, if at some point during your tenure on the  
 25 AGH or AHERF board you had come to learn that

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1 are presented are being reviewed by experts in  
 2 the field adds a great deal of confidence that  
 3 the complexities, nuances of financial  
 4 statements in the healthcare organization are  
 5 being validated.  
 6 Q. And as a member of both the AHERF and the AGH  
 7 board then, did you rely on Coopers & Lybrand  
 8 to perform their duties in a competent way?  
 9 A. Yes.  
 10 Q. With respect -- and I'm talking about with  
 11 respect to the auditing --  
 12 A. Yes.  
 13 Q. -- of AHERF's --  
 14 A. Yes.  
 15 Q. -- financial statements?  
 16 A. Yes.  
 17 Q. And did you as a member of both the AHERF and  
 18 AGH board rely on Coopers & Lybrand to perform  
 19 the audit of AHERF and its affiliates, of those  
 20 financial statements with integrity?  
 21 MR. FRIESEN: Objection.  
 22 A. Yes.  
 23 Q. And as a member of the AHERF and AGH boards,  
 24 did you rely on Coopers & Lybrand to inform  
 25 either the board of AHERF or a committee of the

1 AHERF's outside auditors had called into  
 2 question the integrity of the financial  
 3 management of AHERF, would that have been  
 4 something that would have caused you some  
 5 concern?  
 6 MR. FRIESEN: Objection.  
 7 A. Absolutely.  
 8 Q. Can you explain to me why?  
 9 A. Well, I think that particularly under the  
 10 circumstances I would have been deeply  
 11 concerned if someone had said there were  
 12 financial issues of any type knowing that we  
 13 were operating under, you know, strenuous  
 14 circumstances.  
 15 Q. And if you had received such information from  
 16 the outside auditors, that there was some  
 17 question as to the integrity of the financial  
 18 management at AHERF, would you as a physician  
 19 leader and as a board member have sat back and  
 20 not requested an investigation into those  
 21 statements?  
 22 MR. FRIESEN: Objection.  
 23 A. As a board member, I certainly would have  
 24 requested the finance committee of the board to  
 25 investigate these issues as the appropriate

23 (Pages 89 to 92)

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1 place and the committee on which the expertise  
 2 exists to do such a thing, yes. I would not  
 3 have considered myself the person to do that,  
 4 but I certainly would have expected and  
 5 instructed as capable the finance committee to  
 6 do so.  
 7 Q. And you would have followed through to be sure  
 8 that the people with the appropriate expertise  
 9 were taking the steps you felt to be  
 10 necessary --  
 11 A. Yes.  
 12 Q. -- to investigate such --  
 13 A. Yes.  
 14 Q. -- statements; correct?  
 15 MR. FRIESEN: Wait. I want to object  
 16 to the extent that there were three questions  
 17 and three yeses, I want to object to each of  
 18 the questions, and if it was just one question,  
 19 I want to object to that too.  
 20 MS. MEADEN: It was intended as one  
 21 question but --  
 22 MR. FRIESEN: Okay. If you could  
 23 just wait for a moment so I could get an  
 24 objection in.  
 25 THE WITNESS: Sure.

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1 MR. FRIESEN: Thanks.  
 2 BY MS. MEADEN:  
 3 Q. I think you testified earlier, Dr. Shannon,  
 4 that in the late October 1997 time period is  
 5 when the -- was the first time that you had  
 6 learned of significant transfers from Allegheny  
 7 General Hospital being made to AHERF; correct?  
 8 A. That's correct.  
 9 Q. And I think you also testified that shortly  
 10 thereafter you had heard a response from  
 11 Mr. Abdelhak as to how those moneys were going  
 12 to be paid back; correct?  
 13 A. That's correct.  
 14 Q. Do you recall approximately the time period  
 15 between the last Friday in October and when you  
 16 heard a response from Mr. Abdelhak in '97?  
 17 A. I do not recall the time frame.  
 18 Q. Was it a matter of weeks or months? Days? Can  
 19 you be more specific?  
 20 A. I'm sure it was a matter, as best I can recall,  
 21 a matter of weeks to months.  
 22 Q. And as I understood your earlier testimony --  
 23 and please correct me if I'm wrong, I'm not  
 24 attempting to mischaracterize it -- you were at  
 25 least initially satisfied with Mr. Abdelhak's

1 response as to how those moneys were going to  
 2 be repaid to Allegheny General; correct?  
 3 A. Yes.  
 4 Q. And I think you had testified that he had  
 5 assured at least some group of physicians and  
 6 other AGH board members that the moneys would,  
 7 in fact, be paid; correct?  
 8 MR. FRIESEN: Objection.  
 9 A. Yes.  
 10 Q. Did he give any time period within which that  
 11 repayment was going to be made?  
 12 A. Not that I recall.  
 13 Q. And he -- I believe you testified that he said  
 14 there was an IOU or someone said there was an  
 15 IOU from AHERF to AGH for those -- those  
 16 amounts; correct?  
 17 A. Yes.  
 18 Q. And what significance, if any, did that, the  
 19 existence of such an IOU make to you in your  
 20 level of concern at that point?  
 21 A. I was concerned the transfer had occurred. The  
 22 fact that the parent said it would repay the  
 23 money I understood and took at face value as  
 24 true, and when over a period of the next months  
 25 there appeared to be no mechanism, no credible

1 mechanism whereby the repayment could occur, I  
 2 became more and more concerned.  
 3 Q. But at least initially the existence of such an  
 4 IOU gave you some level of reassurance that the  
 5 moneys may, in fact, be repaid down the road?  
 6 MR. FRIESEN: Objection.  
 7 A. Yes, I took that at face value.  
 8 Q. And I think you also testified that around that  
 9 same time there was discussion of selling some  
 10 of the eastern assets; correct?  
 11 A. That's correct.  
 12 Q. And what significance, if any, did that have  
 13 for you in your level of concern with respect  
 14 to whether the funds would ultimately be repaid  
 15 to AGH?  
 16 A. I understood that to be a mechanism whereby  
 17 cash could be raised that would allow the IOU  
 18 to be addressed and for additional capital to  
 19 be generated to run the eastern entities.  
 20 Q. So it was at least your understanding that if  
 21 the eastern assets were sold, some of the funds  
 22 raised from that sale would be used to repay  
 23 Allegheny General Hospital?  
 24 A. That's correct.  
 25 Q. Okay. And in that October time period then,

TAB 248



William P. Snyder III  
Chairman



**ALLEGHENY**  
HEALTH, EDUCATION AND  
RESEARCH FOUNDATION

Fifth Avenue Place  
120 Fifth Avenue, Suite 2900  
Pittsburgh, PA 15222-3009  
412-358-8590

June 5, 1998

Received  
PRESIDENT & CEO

Mr. Sherif S. Abdelhak  
President and Chief Executive Officer  
Allegheny Health, Education and Research  
Foundation  
Fifth Avenue Place  
120 Fifth Avenue, Suite 2900  
Pittsburgh, PA 15222-3009

Allegheny  
EXECUTIVE OFFICES

Dear Mr. Abdelhak:

Please be advised that at a meeting of the Executive Committee duly called and held on June 5, 1998, the Executive Committee, exercising the power conferred on the Executive Committee under Section 9.3 of the Bylaws of the Allegheny Health, Education and Research Foundation (the "Foundation") took actions removing you as President and Chief Executive Officer of the Foundation, removing you from each other office with the Foundation and each subsidiary and affiliate of the Foundation you may have held and from membership on the Board of Trustees, in each case effective as of 9:30 AM, EDT, on Friday, June 5, 1998. You should also be aware that, to the extent not already provided in the Bylaws of the Foundation, the Executive Committee authorized and directed the Compensation Committee of the Board of the Foundation to resolve any issues which may arise under or in connection with that certain Employment Agreement between the Foundation and you dated October 30, 1991. You should anticipate that the Compensation Committee or its representative will contact your attorney, Julia Martin, in due course with a proposal. You should also be aware that the Compensation Committee has been directed to consider a number of factors which, of course, include the Foundation's obligations under that Employment Agreement as well as the Foundation's obligations to its various constituents and its own interest in preserving its tax exempt status.

Very truly yours,

*W. P. Snyder III*  
W. P. Snyder, III



TACO52826

Allegheny Health, Education and Research Foundation  
Allegheny General Hospital • Allegheny Integrated Health Group • Allegheny University of the Health Sciences  
Allegheny University Hospitals • Allegheny University Medical Centers • St. Christopher's Hospital for Children

TAB 249

**In The Matter Of:**

***AHERF v.  
PRICEWATERHOUSECOOPERS, L.L.P.***

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***ROBERT PALMER  
August 8, 2003***

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***LEGALINK MANHATTAN  
420 Lexington Avenue - Suite 2108  
New York, NY 10170  
PH: 212-557-7400 / FAX: 212-692-9171***

**PALMER, ROBERT**



**LEGALINK®**

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ROBERT PALMER

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|--|---|
| <p style="text-align: right;">Page 149</p> <p>1 Q. If you could just state your answer again just<br/>2 so the record's clear?<br/>3 A. Ask the question again.<br/>4 Q. Okay.<br/>5 A. Please.<br/>6 Q. The potential sale of some of AHERF's eastern<br/>7 hospitals to the Vanguard Health System, the<br/>8 proposed layoffs of around 1,000 to 1,200<br/>9 people in the eastern region of Pennsylvania,<br/>10 and the cost-cutting measures that Mr. Abdelhak<br/>11 and members of management brought to the<br/>12 board's attention, were these all actions taken<br/>13 based on concern about AHERF's financial health<br/>14 in the first quarter of fiscal year 1998 and<br/>15 going forward to the rest of fiscal year --<br/>16 A. They were reaction both current operating<br/>17 results and changing views on strategic<br/>18 decisions.<br/>19 Q. Do you recall if there were any other actions<br/>20 which were contemplated for a means of helping<br/>21 AHERF's financial condition going forward at<br/>22 this time?<br/>23 A. I don't recollect at this moment.<br/>24 Q. Do you recall if you believed at the time that<br/>25 the potential sale of hospitals, the layoff of</p>  | <p style="text-align: right;">Page 151</p> <p>1 its covenants in the line of credit?<br/>2 A. Yes, I do recall in light of particularly<br/>3 discussions having to do with the year-end<br/>4 audit for June 30, '97, and then the<br/>5 renegotiation of that line of credit was<br/>6 another occasion for technical default issues<br/>7 coming up.<br/>8 Q. Do you recall that on or about April 27th,<br/>9 1998, AHERF had repaid the Mellon Bank group?<br/>10 MR. McCLENAHAN: The date again?<br/>11 MR. LUFT: April 27th, 1998.<br/>12 A. Yes, I do.<br/>13 Q. Do you recall if the board was ever consulted<br/>14 as to whether AHERF should repay the Mellon<br/>15 Bank group for that line of credit?<br/>16 A. I do not recall my being consulted.<br/>17 Q. Do you recall ever hearing from any other<br/>18 members of the board of trustees that they had<br/>19 been consulted about whether AHERF should repay<br/>20 the Mellon Bank group for a line of credit?<br/>21 A. No, I don't recall.<br/>22 Q. Is it your understanding that AHERF used up a<br/>23 significant amount of liquidity to pay off the<br/>24 Mellon Bank group in April of 1998?<br/>25 MR. JONES: Object to form.</p> |
| <p style="text-align: right;">Page 150</p> <p>1 individuals and cost-cutting measures were<br/>2 appropriate actions to take in light of AHERF's<br/>3 current financial position?<br/>4 A. Well, everything subject to the terms. The<br/>5 concept I thought might well have merit.<br/>6 Q. Do you recall if anyone ever suggested seeking<br/>7 outside consultation with an expert in the<br/>8 field of hospital healthcare finances for how<br/>9 to proceed based on AHERF's current financial<br/>10 condition?<br/>11 A. I don't recall that being put on the table at<br/>12 that period back at that time. You are talking<br/>13 now about late 1997, early 1998, about the time<br/>14 that the exploratory talks. If that's the<br/>15 period, I don't recall.<br/>16 Q. Okay. Mr. Palmer, do you recall that AHERF had<br/>17 attained \$100 million line of credit from the<br/>18 Mellon Bank group which was made up of Mellon<br/>19 Bank, First Chicago, Toronto Dominion, and Bank<br/>20 One?<br/>21 A. Yes, I do recall.<br/>22 Q. And do you recall that by late fiscal year 1997<br/>23 AHERF's financial performance had declined to<br/>24 the point there were issues of whether AHERF<br/>25 was going to be in noncompliance with some of</p> | <p style="text-align: right;">Page 152</p> <p>1 A. Yes, the \$100 million was -- was a sizable<br/>2 amount in relation to the available cash.<br/>3 Q. And at the time --<br/>4 A. I believe the amount, by the way, was a little<br/>5 less than \$100 million. I think the actual<br/>6 loan I think you'll find was in the 90-ish<br/>7 area.<br/>8 Q. Okay. And was it your understanding at around<br/>9 April of 1998 that AHERF's financial condition<br/>10 had continued to deteriorate from the results<br/>11 we looked at as of first quarter fiscal year<br/>12 1998?<br/>13 A. So you are saying the first quarter of fiscal<br/>14 or calendar when you say April?<br/>15 Q. Let me ask the question again, because I think<br/>16 it's unclear.<br/>17 Did you have an understanding at the<br/>18 time as to AHERF's financial condition in April<br/>19 of '98 in comparison to what it was at the end<br/>20 of the first quarter of fiscal year 1998, which<br/>21 I believe would have been September 30th, 1997?<br/>22 A. And did I have a sense in April of '98 that the<br/>23 condition --<br/>24 MR. McCLENAHAN: Was worsened.<br/>25 A. -- was worsened?</p>                           |



ROBERT PALMER

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| <p>1 Q. Yes.</p> <p>2 A. Yes.</p> <p>3 Q. And it had worsened, to your --</p> <p>4 A. Yes, it had.</p> <p>5 Q. Mr. Palmer, do you recall that Sherif Abdelhak,</p> <p>6 the CEO of AHERF, was fired in June of 1998?</p> <p>7 A. He was fired in either the very late days of</p> <p>8 May or the very early days of June.</p> <p>9 Q. Do you know when Mr. Abdelhak was fired?</p> <p>10 A. I don't recall now the date.</p> <p>11 Q. Do you know the reason that Mr. Abdelhak was</p> <p>12 fired?</p> <p>13 MR. JONES: Object to foundation.</p> <p>14 A. I was informed that a -- that a group of</p> <p>15 trustees most closely involved with the work --</p> <p>16 in the relationship, governance relationship</p> <p>17 with Mr. Abdelhak had lost confidence in his</p> <p>18 ability to properly conduct the affairs.</p> <p>19 Q. Do you recall who those trustees were?</p> <p>20 A. I don't know all of them. Obviously Bill</p> <p>21 Snyder was one.</p> <p>22 Q. Was the decision as to whether to fire</p> <p>23 Mr. Abdelhak ever brought before the whole</p> <p>24 AHERF board?</p> <p>25 A. Not before it was done.</p>        | <p>1 the best. I'll just say a couple criteria. I</p> <p>2 was in those discussions. I was part of that</p> <p>3 meeting, and I can tell you especially about my</p> <p>4 thinking, less so about other people's.</p> <p>5 It was my feeling, and I believe</p> <p>6 others, that, if possible, it would be highly</p> <p>7 desirable to fill that position from the</p> <p>8 inside. Time was of the essence, and current</p> <p>9 knowledge, trust, and working relationships</p> <p>10 with others in the organization, suppliers and</p> <p>11 others who dealt with the organization, it</p> <p>12 would be best if we had the right person to do</p> <p>13 it from within, and Anthony Sanzo had a good</p> <p>14 range of experience. He enjoyed the trust</p> <p>15 of -- of myself and I believe others. We had</p> <p>16 decided that he was the best option that we had</p> <p>17 at the time in the circumstances in which we</p> <p>18 were operating.</p> <p>19 Q. Do you recall if any people outside of AHERF</p> <p>20 were seriously considered for the role of CEO</p> <p>21 of AHERF to succeed Mr. Abdelhak?</p> <p>22 A. I don't recall specific names. There was good</p> <p>23 discussion about the pros and cons of staying</p> <p>24 in, going out, and if we would go out, we would</p> <p>25 try to find someone who had great capability,</p> |
| Page 154   | Page 156   |
| <p>1 Q. So Mr. Abdelhak was fired, and then the whole</p> <p>2 parent board was told that Mr. Abdelhak had</p> <p>3 been fired?</p> <p>4 A. Yes.</p> <p>5 Q. Do you recall that Anthony Sanzo was chosen to</p> <p>6 replace Mr. Abdelhak?</p> <p>7 A. Yes.</p> <p>8 Q. Do you recall if the whole parent board was</p> <p>9 ever asked to meet to decide who should succeed</p> <p>10 Mr. Abdelhak as CEO of AHERF?</p> <p>11 A. I recall that the executive committee met to</p> <p>12 make that decision. I don't recall that the</p> <p>13 full board was.</p> <p>14 Q. And was it your understanding that the</p> <p>15 executive committee believed that Mr. Sanzo was</p> <p>16 the best person to lead AHERF at the time they</p> <p>17 appointed him?</p> <p>18 A. I recollect that the executive committee did</p> <p>19 feel that.</p> <p>20 Q. Do you know why the executive committee felt</p> <p>21 that Mr. Sanzo was the best person to succeed</p> <p>22 Mr. Abdelhak as CEO of AHERF?</p> <p>23 A. It was felt that if --</p> <p>24 MR. JONES: Object to foundation.</p> <p>25 A. It's a hard question to answer why Sanzo was</p> | <p>1 but I was party to and agreed with a decision</p> <p>2 that Anthony Sanzo would be the best.</p> <p>3 Q. Do you recall that in June of 1998</p> <p>4 Mr. McConnell, the CFO of AHERF, was fired?</p> <p>5 A. Yes.</p> <p>6 Q. Do you have an understanding of why</p> <p>7 Mr. McConnell was fired?</p> <p>8 A. Yes.</p> <p>9 Q. And what is your understanding?</p> <p>10 A. That he did not enjoy the confidence of either</p> <p>11 the new management or the board.</p> <p>12 Q. Do you recall if the entire AHERF board of</p> <p>13 trustees was consulted as to whether to fire</p> <p>14 Mr. McConnell?</p> <p>15 A. I don't recall that the entire board was, but I</p> <p>16 do recall that the executive committee was.</p> <p>17 MR. JONES: Note my objection to</p> <p>18 foundation.</p> <p>19 Q. I'd like to show you what was previously marked</p> <p>20 as Exhibit 1672. Specifically I'm going to ask</p> <p>21 you about pages Bates stamped PR-PLD 0050-3109</p> <p>22 through 110.</p> <p>23 A. Would you repeat --</p> <p>24 Q. Sure.</p> <p>25 A. I'm looking at the title, and I'm trying to get</p>   |

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| Page 157  | Page 159   |
|---|--|
| <p>1 in my mind, you know, what's going on at the<br/> 2 time. I'm trying to understand what I'm about<br/> 3 to read. Okay. Could you tell me the<br/> 4 specific --<br/> 5 Q. I'm sorry.<br/> 6 A. No, that's all right.<br/> 7 Q. The final Bates numbers are 3109 through 3110.<br/> 8 MR. McCLENAHAN: I was just going to<br/> 9 suggest to you to page through that exhibit and<br/> 10 make sure you have a sense of what it is.<br/> 11 Q. Absolutely.<br/> 12 A. Okay. It's executive committee of -- I am not<br/> 13 in attendance, but it says -- these are<br/> 14 minutes, but it says there are no draft or<br/> 15 final minutes of this meeting. Are these draft<br/> 16 minutes or what, or are these just documents<br/> 17 that were put on the table?<br/> 18 Q. The document I wish to ask you about --<br/> 19 MR. McCLENAHAN: He's asking you<br/> 20 about the exhibit, not -- I want him to get<br/> 21 familiar with the exhibit.<br/> 22 MR. LUFT: And I'm trying to give him<br/> 23 that answer.<br/> 24 MR. McCLENAHAN: Okay.<br/> 25 MR. LUFT: Okay? This is a document</p>   | <p>1 Robert Palmer.<br/> 2 THE WITNESS: Yeah, apparently I was<br/> 3 on the telephone.<br/> 4 BY MR. LUFT:<br/> 5 Q. Okay.<br/> 6 A. Whether I was able to look at any of these<br/> 7 documents, I probably was not, I was not by a<br/> 8 fax machine, but I may have been present for<br/> 9 discussion around some of them as best I could<br/> 10 deal with them.<br/> 11 Q. Okay. The document I'm asking about purports<br/> 12 to be a July 7, 1998 letter from PNC Bank,<br/> 13 National Association, MBIA Insurance<br/> 14 Corporation, to the members of the board of<br/> 15 trustees of AHERF.<br/> 16 Do you recall if you ever received a<br/> 17 copy of this letter, Mr. Palmer?<br/> 18 A. I don't recall.<br/> 19 Q. The letter discusses the potential for a bridge<br/> 20 loan for AHERF. Do you recall if you ever were<br/> 21 aware that MBIA and PNC offered to make a<br/> 22 bridge loan to AHERF?<br/> 23 A. I recall being in discussion on this subject.<br/> 24 I don't recall whether I actually looked at<br/> 25 this letter.</p>  |
| Page 158  | Page 160   |
| <p>1 which came from the files, it's my<br/> 2 understanding that it was put together this<br/> 3 way. I mean I can't represent to you whether<br/> 4 this was minutes with attachments or just<br/> 5 documents that someone has clipped together at<br/> 6 a later point.<br/> 7 The document that I wanted to ask you<br/> 8 about I believe is a complete letter, and I<br/> 9 just want to ask you about that, but I cannot<br/> 10 represent to you one way or the other whether<br/> 11 this was a document at the point or whether<br/> 12 this is somewhat later.<br/> 13 MR. JONES: I will note that the<br/> 14 third page in doesn't note the witness'<br/> 15 attendance at whatever meeting these documents<br/> 16 may or may not refer to.<br/> 17 MR. LUFT: I believe the witness has<br/> 18 already pointed that out. Thank you.<br/> 19 MR. JONES: I'm sorry, I couldn't<br/> 20 hear it, as I have trouble with --<br/> 21 THE WITNESS: I'm sorry, yes, I did.<br/> 22 Oh, now, just a minute. Just a minute.<br/> 23 Telephone conference participants, look toward<br/> 24 the bottom of the page.<br/> 25 MR. JONES: I see your name now,</p> | <p>1 MR. McCLENAHAN: Why don't you take a<br/> 2 minute to read the letter.<br/> 3 THE WITNESS: Okay.<br/> 4 ----<br/> 5 (The witness reviewed the Exhibit.)<br/> 6 ----<br/> 7 A. Okay.<br/> 8 Q. Do you recall that MBIA and PNC offered to give<br/> 9 AHERF a bridge loan so that AHERF could avoid<br/> 10 filing bankruptcy?<br/> 11 MR. JONES: Object to form.<br/> 12 A. I recall that they offered a bridge loan. I<br/> 13 can't be sure of exactly what their purpose of<br/> 14 doing it was, but I recall that they offered to<br/> 15 make such a bridge loan.<br/> 16 Q. Do you recall if AHERF accepted their offer for<br/> 17 the bridge loan?<br/> 18 A. My recollection is that AHERF did not accept.<br/> 19 Q. Do you recall why AHERF rejected MBIA and PNC's<br/> 20 offer?<br/> 21 MR. JONES: Object to foundation.<br/> 22 A. Yes, I do. That it seemed to us, this may or<br/> 23 may not have been what they were -- it seemed<br/> 24 to us that this was an attempt on behalf of<br/> 25 this already engaged creditors to improve its</p> |

TAB 250

**In The Matter Of:**

*AHERF v.  
PRICEWATERHOUSECOOPERS, LLP*

---

*ALFRED W. MARTINELLI  
May 5, 2004*

---

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MARTINELLI, ALFRED W.







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1 Alfred W. Martinelli  
 2 the trustees. Do you remember her at all?  
 3 A From the medical school? The name  
 4 is familiar. I'm having trouble placing it,  
 5 putting a familiar face on it.  
 6 Q Now, this document doesn't have a  
 7 date on it and it doesn't say on it what  
 8 meeting it's from if it's from a meeting.  
 9 There's a name on here Danforth. Do you  
 10 remember a Mr. Danforth as a trustee at AHERF?  
 11 A Was Danforth a consultant? I  
 12 thought he might have been a consultant.  
 13 Q Well, you recall a Douglas Danforth  
 14 who was a trustee?  
 15 A I don't.  
 16 MS. MEADEN: I'm sorry? Is  
 17 that a no? No, you don't recall?  
 18 THE WITNESS: I don't recall  
 19 the names.  
 20 BY MR. FRIESEN:  
 21 Q Under Danforth, it says: "We must  
 22 not let the organization or outside world  
 23 think we will fail; it's a hard time, but  
 24 we'll make it."  
 25 Do you remember being at a meeting

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1 Alfred W. Martinelli  
 2 where either Mr. Danforth or another trustee  
 3 said words to that effect?  
 4 MS. MEADEN: I'm going to  
 5 object to the form.  
 6 A One of the doctors, and I can't  
 7 recall what meeting, the meeting that was --  
 8 when the Vanguard was being presented to us  
 9 and we were told that there was no other  
 10 alternatives, and then we were further told  
 11 that there was a technical default in our  
 12 debt, and I raised the question that perhaps  
 13 we needed to think about bankruptcy as  
 14 protection having been through the Penn  
 15 Central situation.  
 16 Several of the board members,  
 17 including one of the doctors, and I don't know  
 18 whether that was Danforth or not, raised that  
 19 question. He said we cannot do that. He said  
 20 if we do that, we'll lose all of our patients,  
 21 nobody will come to us and nobody ever will  
 22 want to come to a bankrupt school or bankrupt  
 23 hospital. I said that's not the case.  
 24 Bankruptcy actually gives you protection. You  
 25 can operate under that bankruptcy protection.

1 Alfred W. Martinelli  
 2 And we can kind of restructure this whole  
 3 situation. Most of the people there were very  
 4 much upset about the word "bankruptcy" and  
 5 they were very much upset by it. Who said  
 6 what, I do remember one of the physicians made  
 7 it very clear that we cannot put out that  
 8 we're going to close -- not close, that we're  
 9 going to go bankrupt.  
 10 Q And this was a physician from one of  
 11 the Philadelphia entities?  
 12 A I remember it was one of the  
 13 physicians that said that.  
 14 Q And this person was from  
 15 Philadelphia?  
 16 A Yes.  
 17 Q Do you remember who it was?  
 18 A I don't know.  
 19 Q Okay. You can put that document  
 20 aside. I'm going to show you another one  
 21 that's been marked as Exhibit 2524.  
 22 MR. McCLENAHAN: Let me take  
 23 just a second with Mr. Martinelli.  
 24 THE VIDEOGRAPHER: We are now  
 25 going off the video record. The time is

1 Alfred W. Martinelli  
 2 2:06.  
 3 (Discussion off the record.)  
 4 THE VIDEOGRAPHER: We are now  
 5 back on the video record. The time is  
 6 2:10 p.m. We are now ending the second  
 7 tape. The time is 2:10 p.m.  
 8 (Short recess.)  
 9 THE VIDEOGRAPHER: This is  
 10 Videotape 3. The date is May 5, 2004.  
 11 The time is 2:20 p.m. The deposition of  
 12 Alfred Martinelli.  
 13 BY MR. FRIESEN:  
 14 Q Mr. Martinelli, you have Exhibit  
 15 2524 in front of you?  
 16 A Yes.  
 17 Q Have you had a chance to look  
 18 through it?  
 19 A Yes.  
 20 Q Again, this comes from the files of  
 21 Ms. or Dr. Murasko. The second page of the  
 22 document says Joint Meeting of the Board of  
 23 Trustees and Resource Management Committee  
 24 Allegheny University of the Health Sciences.  
 25 And do you see you're listed there as one of

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1 Alfred W. Martinelli  
2 the members?

3 A Yes.

4 Q Now, three pages after that, the  
5 page ending in 7593 -- two pages after, there  
6 are notes of an April 21, 1998, meeting of the  
7 AUHS board. Now, I don't know whether you  
8 were at this meeting or not, but I want to ask  
9 you a couple questions to see if it refreshes  
10 your recollection. And I'd like you to go to  
11 the last page of the exhibit, 7596. Do you  
12 see it says "Concerns of Board"?

13 A Yes.

14 Q And it says "Sherif" and it talks  
15 about Vanguard and says "feel comfortable it  
16 will close but...there is a back up plan  
17 (doesn't want to share)."

18 Do you recall ever being at a  
19 meeting where Mr. Abdelhak said in substance  
20 that he was comfortable that the Vanguard deal  
21 would close but there was a backup plan that  
22 he didn't want to share?

23 A I can't recall that. Looking at the  
24 dates, the month of April is generally when  
25 I'm still in Florida and I don't come up and I

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1 Alfred W. Martinelli  
2 don't remember coming up specifically for a  
3 meeting. And I don't recall attending this by  
4 telephone so I'm not quite sure whether I was  
5 here or not. I can't answer that  
6 specifically.

7 Q Well, that's a good point. Let me  
8 follow up on that. During 1997 and 1998, what  
9 months would you be at your home in Florida?

10 A Generally speaking, we go down in  
11 the beginning of November to open up the  
12 house, come back for Thanksgiving and stay  
13 through Christmas, and go back down the 27th  
14 of December and then come back sometime after  
15 Easter, probably at the end of April or the  
16 beginning of May. It varies a little bit  
17 about when Easter falls.

18 Q And do you recall ever coming back  
19 to Philadelphia or Pittsburgh while you were  
20 in Florida to attend an AHERF or  
21 AHERF-affiliated entity meeting?

22 A No.

23 Q You can put that document aside.  
24 Do you have any recollection that in  
25 April of 1998 AHERF repaid a loan to the

1 Alfred W. Martinelli  
2 Mellon Bank?

3 A I do not.

4 Q Were you involved at all in the  
5 decision to terminate Mr. Abdelhak?

6 A No.

7 Q Do you recall how you found out that  
8 Mr. Abdelhak had been terminated?

9 A I don't recall specifically how it  
10 came about, but I don't -- you know, did not  
11 participate in it and probably heard it  
12 through someone from Hahnemann.

13 Q And did anyone ever explain to you  
14 why Mr. Abdelhak was terminated?

15 A Not specifically.

16 Q Do you have any idea even today why  
17 he was terminated?

18 A My guess is that he was the author  
19 of a failed strategy. And he did a lot of  
20 things to try to make that work. And my guess  
21 is that from hindsight, knowing the things he  
22 did, everything he did was to try to obtain  
23 the capital necessary. I think he invaded  
24 some of the endowment funds but he did so by  
25 putting a note back in and then getting

1 Alfred W. Martinelli  
2 approval by the executive committee to do  
3 that. Those are hindsight observations. And  
4 so everything he did was to try to make that  
5 strategy work. And, unfortunately, the cash  
6 was flowing out too quickly and there wasn't  
7 sufficient time to bring that around.

8 Q Were you involved with the AHERF  
9 board when the decision -- the AHERF parent  
10 board when the decision to file for bankruptcy  
11 was made?

12 A No.

13 Q Do you have any knowledge of  
14 proposals for interim financing that were made  
15 to AHERF just prior to the filing of the  
16 bankruptcy?

17 A No, I do not.

18 Q Earlier in the deposition, you  
19 talked about your feeling that the Pittsburgh  
20 trustees I think you used the word  
21 "sacrificed" the eastern entities. Did you  
22 express your feelings about that either to  
23 Mr. Abdelhak or to any of the Pittsburgh  
24 trustees?

25 A When I came to that conclusion, they

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1 Alfred W. Martinelli  
 2 were gone. I mean, that was after the  
 3 Vanguard situation had taken place and shortly  
 4 thereafter when it went bankrupt. Then it  
 5 became clear what the objective was.  
 6 Q Oh, I see. You had these feelings  
 7 after the bankruptcy filing?  
 8 A That's right. And it was clear when  
 9 they tried to -- they brought some consultant  
 10 in to try to turn the Philadelphia thing  
 11 around and it was clear that they were sort of  
 12 disassociating themselves from what was going  
 13 on in Philadelphia.  
 14 Q And was that after the bankruptcy?  
 15 A After the bankruptcy.  
 16 Q Did you hear about the decision to  
 17 file for bankruptcy before it happened or  
 18 after it happened, meaning before the decision  
 19 was taken or after?  
 20 A Say again.  
 21 MR. FRIESEN: If we could just  
 22 have the question read back.  
 23 (The court reporter read the  
 24 preceding question.)  
 25 THE WITNESS: My recollection

1 Alfred W. Martinelli  
 2 results from operations show a decrease,  
 3 again, there is \$95 million in depreciation so  
 4 that from a cash point of view, that should be  
 5 a cash positive result to the operation.  
 6 Q Right. I don't mean to interrupt  
 7 you, but what I'd like to know is, typically  
 8 when you would receive audited financial  
 9 statements, is there a particular part that  
 10 you would in your practice focus on when you  
 11 got them? I'm not necessarily talking about  
 12 these ones in particular.  
 13 A Okay. Generally, I would look at  
 14 the notes and I would look at the cash flow  
 15 statements. Those are the things that would  
 16 concern me the most.  
 17 Q Okay. And why is that?  
 18 A Again, the notes understand --  
 19 MR. McCLENAHAN: Excuse me. Do  
 20 you mean in addition to what he already  
 21 testified to for 20 minutes earlier in  
 22 the deposition about why the cash flow  
 23 statements are much more important than  
 24 the balance sheet or the income  
 25 statement? Do you mean in addition to

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1 Alfred W. Martinelli  
 2 is after.  
 3 BY MR. FRIESEN:  
 4 Q You weren't consulted before?  
 5 A No.  
 6 Q Let me show you a document that's  
 7 previously been marked Exhibit 1661. These  
 8 are the fiscal year 1996 audited financial  
 9 statements for AHERF. Do you recall seeing  
 10 these audited financial statements,  
 11 Mr. Martinelli?  
 12 A I'm sure I did. I can't recall  
 13 specifically, you know, when and where and all  
 14 the rest, but I'm sure I saw these.  
 15 Q When you were actively participating  
 16 in the AHERF Board of Trustees, would you  
 17 review any audited financial statements that  
 18 were provided to you?  
 19 A Whatever was presented, I would  
 20 review.  
 21 Q And is there any particular part or  
 22 line item of audited financial statements for  
 23 AHERF that you would focus on when you  
 24 received them?  
 25 A It's hard for me to say. While the

1 Alfred W. Martinelli  
 2 what he's already said? Because there's  
 3 no reason for him to repeat it at this  
 4 hour.  
 5 MR. FRIESEN: If he wants to  
 6 refer back to his testimony, then that's  
 7 fine.  
 8 THE WITNESS: Well, again, I've  
 9 covered why I thought cash flow was the  
 10 important thing for a nonprofit  
 11 corporation and the footnotes to the  
 12 financials contain the understanding of  
 13 the numbers and what's in them. And  
 14 anything that was amiss or anything else  
 15 should have been in the footnotes.  
 16 BY MR. FRIESEN:  
 17 Q Let me show you another document  
 18 that's been marked as Exhibit 1656. Now, this  
 19 is the board book for the October 30, 1997,  
 20 meeting that you may recall you did not attend  
 21 back from the minutes. And I just want to see  
 22 if you go to the page starting at 827 at the  
 23 bottom, it says Draft at the top and it says  
 24 Consolidated Financial Statements for the year  
 25 ended June 30, 1997. Even though you were not

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**In The Matter Of:**

*AHERF v.  
PRICEWATERHOUSECOOPERS*

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*BARBARA ATKINSON, M.D.  
May 12, 2004*

---

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**ATKINSON, M.D., BARBARA - Vol. 1**







BARBARA ATKINSON, M.D.

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1 A. No.

2 Q. (BY MR. FRIESEN) Is this something that you would

3 think that Mr. Abdelhak wouldn't be in his nature

4 to say?

5 A. This doesn't sound like him either. But, I won't

6 say he didn't say this one. But I don't know. You

7 know, newspaper reporters take things totally out

8 of context.

9 Q. And I take it at that time you had full confidence

10 that Mr. Abdelhak had the ability and whatever he

11 needed to right the ship, as it were?

12 A. Yes.

13 Q. Do you recall around this time, in October of 1997,

14 any of the other trustees disagreeing with Mr.

15 Abdelhak's corrective strategy, meaning the layoffs

16 and other cost containment measures while

17 continuing on with the Integrated Delivery System

18 strategy?

19 MR. UNICE: Object to form.

20 A. I don't recall any specifics. I think people

21 thought the layoff, as painful as they were, were

22 what needed to happen.

23 Q. (BY MR. FRIESEN) They thought that -- or you

24 thought that AHERF was already doing all that it

25 could to solve problems it had?

1 the AHERF entities complaining that they hadn't

2 been paid?

3 A. I remember that those started, and they probably

4 started sometime after October, but it really got

5 significant again in the wintertime. So I remember

6 it more, it became more of a crises in the winter

7 and spring. I don't remember if I got any specific

8 ones in the fall.

9 Q. And did you do anything to follow-up with -- let me

10 just withdraw that.

11 Did vendors call you or did you get reports

12 from faculty members of vendors calling, or how did

13 you find out about that?

14 A. Yeah, they didn't call me. I think I got reports

15 from faculty of issues with vendors. I think it

16 was really in response to newspaper articles.

17 Q. And did you pass along those concerns to the board?

18 A. I probably passed them along to Sherif Abdelhak;

19 I'm not sure if I passed it to the board or not.

20 Q. Do you remember what his response was?

21 A. No.

22 Q. Do you recall there came a point in time in 1998,

23 prior to the bankruptcy, when AHERF tried to sell

24 some of its hospitals to the Vanguard organization?

25 A. Yes.

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1 MR. UNICE: Object to form.

2 A. I guess.

3 Q. (BY MR. FRIESEN) By the way, the article mentions

4 picketers that were -- that the newspaper at least

5 said were going to march in Philadelphia to protest

6 the layoffs; do you remember any protests?

7 A. I don't remember.

8 Q. Do you recall having a conversation with Doctor

9 Donna Murasko where you discussed the University

10 not spending any more money on faculty or equipment

11 and basically cutting costs pretty drastically?

12 MR. UNICE: Object to form with the time

13 frame.

14 A. I don't know.

15 MR. FRIESEN: I don't know. Donna

16 Murasko didn't know, and that's why I'm asking

17 Doctor Atkinson.

18 A. Okay. I don't remember. I had lots of

19 conversations with -- Donna was another faculty

20 member, and we certainly -- and she was another

21 faculty representative on the Board, the basic

22 science representative, so I know we talked in a

23 variety of occasions about a lot of things.

24 Q. (BY MR. FRIESEN) Did you ever receive any phone

25 calls or communications from any vendors of any of

1 Q. And do you know why they wanted to do that, why

2 AHERF wanted to try and make that deal?

3 A. I assumed it was for cash.

4 Q. Did you have a sense of what would happen if the

5 transaction didn't close?

6 MR. UNICE: Object to form.

7 A. No.

8 Q. (BY MR. FRIESEN) Did you ever hear Mr. Abdelhak

9 saying how confident or unconfident he was that the

10 deal would close?

11 A. I can't remember.

12 Q. I'm going to show you a document that's been marked

13 as 2524.

14 A. Okay.

15 Q. Now, this document is from the files of Doctor

16 Murasko. And if you go to the second page, it

17 says, "Joint meeting of the Board of Trustees and

18 Resource Management Committee, Allegheny University

19 of the Health Sciences" April 21st, 1998, and

20 you're listed there with a tick mark next to your

21 name as an other invitee?

22 A. Yes.

23 Q. Then, if you go to the page ending in 7593, these

24 are Doctor Murasko's notes, and at the top it says,

25 April 21st, 1998, a UHS Board.

BARBARA ATKINSON, M.D.

|   |  |
|---|--|
| <p style="text-align: right;">Page 97</p> <p>1 A. Okay.</p> <p>2 Q. And I'd like to ask you about the last page of the</p> <p>3 document. You can read as much as of it as you</p> <p>4 want to, please.</p> <p>5 A. Okay.</p> <p>6 Q. Now, on the last page it says, Sheriff, and one of</p> <p>7 the things that it says there is, "Vanguard feel</p> <p>8 comfortable it will close but dot, dot, dot, there</p> <p>9 is a backup plan, paren, doesn't want to share,</p> <p>10 close paren"?</p> <p>11 A. Uh-huh.</p> <p>12 Q. Do you recall being at a meeting where Mr. Abdelhak</p> <p>13 said that he was comfortable that the Vanguard deal</p> <p>14 would close, but if it didn't close there was a</p> <p>15 backup plan but he didn't want to share the backup</p> <p>16 plan?</p> <p>17 A. I don't remember that, but if she took these notes</p> <p>18 I assume it's correct.</p> <p>19 Q. Do you recall being -- strike that</p> <p>20 You can put that document aside.</p> <p>21 Do you recall anything about a loan to AHERF</p> <p>22 from Mellon Bank being repaid in April of 1998?</p> <p>23 A. I recall the issues about it from later. I don't</p> <p>24 know that I recall it at the time, but I recall</p> <p>25 hearing about it during the bankruptcy as one of</p>                                     | <p style="text-align: right;">Page 99</p> <p>1 board meetings related to transfers or loans from</p> <p>2 the Pittsburgh area AHERF entities to support the</p> <p>3 Philadelphia area AHERF entities?</p> <p>4 A. Yes. I know that several of the Pittsburgh board</p> <p>5 members raised those issues on several occasions.</p> <p>6 Q. And what do you remember about the issues that they</p> <p>7 raised?</p> <p>8 A. I don't really remember that much, although I</p> <p>9 remember that the Philadelphia entities didn't</p> <p>10 actually -- well, thought at some level it was</p> <p>11 probably not true or not to the extent that the</p> <p>12 Pittsburgh people thought it was true.</p> <p>13 So I know that there was some dispute about</p> <p>14 what actually happened. That some of the financial</p> <p>15 management was happening out of Pittsburgh, so it</p> <p>16 wasn't entirely clear how some of the -- how some</p> <p>17 of those transactions actually happened.</p> <p>18 Q. Do you recall any of the Philadelphia trustees,</p> <p>19 including yourself, ever saying that they thought</p> <p>20 that the Pittsburgh trustees were the people who</p> <p>21 were -- or the Pittsburgh people were the people</p> <p>22 who were running the show at AHERF and not the</p> <p>23 Philadelphia people?</p> <p>24 MR. UNICE: Object to form.</p> <p>25 A. I don't remember anything about that.</p> |
| <p style="text-align: right;">Page 98</p> <p>1 the issues later on.</p> <p>2 Q. What do you recall learning?</p> <p>3 A. Well, some of the implications of the, of that,</p> <p>4 that there were members of the board from the</p> <p>5 Mellon Bank.</p> <p>6 Q. Can you explain a little bit more what you mean by</p> <p>7 that?</p> <p>8 A. Well, just that it was -- that they had called in</p> <p>9 the loan, I guess, and I don't know if it's true or</p> <p>10 not, that they did it based on the fact that they</p> <p>11 were on the board, but that that was at least an</p> <p>12 allegation during the bankruptcy that that</p> <p>13 happened.</p> <p>14 Q. Do you know who made that allegation?</p> <p>15 A. I don't. And I don't even know who the appropriate</p> <p>16 board members were.</p> <p>17 Q. But at the time that it happened, at the time back</p> <p>18 in April of 1998, when Mellon Bank loan was repaid,</p> <p>19 did you have any knowledge of it?</p> <p>20 A. It was probably something that was passed at a</p> <p>21 board meeting, but it didn't -- it wasn't with</p> <p>22 any -- it didn't seem unusual, or with any reason</p> <p>23 to make it seem as if anything other than an</p> <p>24 ordinary transaction.</p> <p>25 Q. Do you remember any concerns being raised at any</p> | <p style="text-align: right;">Page 100</p> <p>1 Q. (BY MR. FRIESEN) Do you remember ever feeling that</p> <p>2 way?</p> <p>3 MR. UNICE: Same objection.</p> <p>4 A. I don't actually understand what you mean.</p> <p>5 Q. (BY MR. FRIESEN) Do you remember any friction</p> <p>6 between the Philadelphia trustees and the</p> <p>7 Pittsburgh trustees?</p> <p>8 MR. UNICE: Object to form.</p> <p>9 A. I don't remember anything that was friction.</p> <p>10 Q. (BY MR. FRIESEN) Do you recall feeling that you</p> <p>11 were left out, to some extent, because you were</p> <p>12 from Philadelphia and not one of the people from</p> <p>13 Pittsburgh?</p> <p>14 A. I didn't feel that I was left out, but I'm, as I</p> <p>15 said, I was an academic representative, and so from</p> <p>16 that standpoint -- in fact, I probably wasn't -- I</p> <p>17 was responsible for the academics there, too, so I</p> <p>18 did not feel that. But I was not the finance</p> <p>19 person.</p> <p>20 Q. Did you have any involvement at all in the</p> <p>21 termination of Mr. Abdelhak?</p> <p>22 A. No.</p> <p>23 Q. You weren't consulted at all?</p> <p>24 A. I don't believe so.</p> <p>25 Q. When was the first time, whether in terms of an</p>   |

25 (Pages 97 to 100)

BARBARA ATKINSON, M.D.

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1 event or in terms of, you know, a time, that you  
 2 heard anyone discuss the possibility of Mr.  
 3 Abdelhak either resigning or being terminated?  
 4 A. I'm not really sure. I was surprised when it  
 5 happened. I'm not -- I think I probably heard  
 6 about it afterwards, and I don't know that I  
 7 heard -- that I even heard talk about it happening  
 8 beforehand at all.  
 9 Q. And why were you surprised?  
 10 A. Well, I guess I still didn't realize that there was  
 11 as much trouble as there was.  
 12 Q. Did you ever learn why Mr. Abdelhak was terminated,  
 13 exactly?  
 14 A. I don't know that I had any specific -- no, I guess  
 15 not, not what the specific causes were, no.  
 16 Q. Did you ever hear of any physicians either from  
 17 Pittsburgh or Philadelphia asking any board members  
 18 to terminate Mr. Abdelhak?  
 19 A. I actually, I didn't know that, if they did.  
 20 Q. You didn't know that until just now?  
 21 A. Yeah, I think so, yeah.  
 22 Q. Okay. And you don't recall any discussions among  
 23 physicians or faculty members or anyone, to your  
 24 knowledge, prior to your finding out that Mr.  
 25 Abdelhak had been terminated about his potential

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1 termination?  
 2 A. Yeah, I think people were beginning to have  
 3 questions about what was all happening. People, I  
 4 think most people still even through till he was  
 5 terminated didn't recognize what the level of the  
 6 problem was.  
 7 The person I worked with most closely through  
 8 that whole spell was Don Kaye, who was the  
 9 president of the university then, from January on,  
 10 and so I'm not sure what discussions we had, but  
 11 certainly it wasn't about terminating Sherif.  
 12 Q. Up until the time he was terminated, did you ever  
 13 have any concerns about Mr. Abdelhak's competence  
 14 or integrity?  
 15 A. Well, I don't know. I guess that the integrity  
 16 piece I started wondering about, and that  
 17 particularly grew across that January on time  
 18 frame. Competence, I still assumed he was right  
 19 till I saw how, what happened afterwards.  
 20 Q. And what it that made you question his integrity?  
 21 A. Well, I just didn't know how truthful he was being  
 22 about some of the, discussing the issues, and I'm  
 23 not even sure at what point I began to have those  
 24 concerns and whether it was the comparing the  
 25 aftermath to the beforehand. He was a very -- he

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1 was very powerful, believable person when he was in  
 2 power, I guess. Much less believable when you saw  
 3 the aftermath.  
 4 Q. Do you recall any specific things that he said that  
 5 you questioned when you heard them?  
 6 A. I can't recall.  
 7 Q. If you had heard that Mr. Abdelhak had hung up the  
 8 phone on another trustee during a phone call, would  
 9 that have caused you to question whether he was the  
 10 right person to be CEO?  
 11 MR. UNICE: Object to form.  
 12 A. I can't answer that. I did not know that.  
 13 Q. (BY MR. FRIESEN) I understand.  
 14 A. Okay.  
 15 Q. But if you'd heard it, you don't know what you'd  
 16 think?  
 17 A. Yeah.  
 18 Q. Does that sound like something he would do, or is  
 19 that something that surprises you?  
 20 MR. UNICE: Object to form, lack of  
 21 foundation  
 22 A. He had a temper. It depends on what somebody said,  
 23 so I'd have to know who it was and under what  
 24 circumstances. I would assume he might do it under  
 25 some circumstance.

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1 Q. (BY MR. FRIESEN) You said that he had a temper,  
 2 can you recall any specific instances of his temper  
 3 being exercised?  
 4 A. I can't recall but there were instances. I mean,  
 5 it's not at board meetings, he usually was pretty  
 6 calm and collected at board meetings, but usually  
 7 if there were -- but if there was really some bad  
 8 news in terms of something, he got angry.  
 9 Q. At the time that the bankruptcy -- withdrawn.  
 10 At the time you found out about the bankruptcy  
 11 filing, what was your view as to what had caused  
 12 the problems that lead to the bankruptcy?  
 13 MR. UNICE: Object to form, lack of  
 14 foundation.  
 15 A. Well, I'm not sure exactly what you mean. You want  
 16 to know why I thought we were in bankruptcy?  
 17 Q. (BY MR. FRIESEN) Yes.  
 18 A. Well I guess I didn't realize that there were the  
 19 financial problems there were until the Hunter  
 20 Group was brought in, and even at the beginning of  
 21 that I thought it was a cash flow problem but not  
 22 a, not a major bankruptcy problem.  
 23 Once -- I think it took awhile even into the  
 24 bankruptcy to begin to start thinking about and  
 25 understanding where the troubles came from, but I

TAB 252

**Special Meeting of the Board of Trustees of  
Allegheny Health, Education and Research Foundation  
Pittsburgh, Pennsylvania**

A special meeting of the Board of Trustees of Allegheny Health, Education and Research Foundation was held on Monday, January 5, 1998 at 10:30 a.m. via videoconference between the AHERF Fifth Avenue Place Conference Room, Pittsburgh, Pennsylvania and the Hahnemann President's Conference Room, Philadelphia, Pennsylvania and via teleconference.

**Members Present**

Sherif S. Abdelhak  
William F. Adam\*  
Henry G. Allyn, Jr.\*  
Barbara F. Atkinson, M.D.\*  
J. David Barnes\*  
Iain F.S. Black, M.D.\*  
Ralph W. Brenner, Esq.\*  
Dorothy McKenna Brown, Ed.D.\*  
Douglas D. Danforth  
Ronald R. Davenport\*  
Harry R. Edelman III\*  
William H. Genge\*  
Ira J. Gumberg  
Robert M. Hernandez\*  
Joseph C. Maroon, M.D.\*  
Donna M. Murasko, Ph.D.\*  
Francis B. Nimick, Jr.  
Robert B. Palmer  
Richard L. Ray, M.D.\*  
J. Brandon Snyder\*  
W.P. Snyder III  
Richard Spielvogel, M.D.\*  
Leon C. Sunstein, Jr.\*  
W. Bruce Thomas\*  
Stanley Trooskin, M.D.\*  
Mark Victor, M.D.\*  
Walter L. Williamson\*  
Margaret Gray Wood\*

**Invited Guests Present**

Donald Kaye, M.D.  
Dwight Kasperbauer  
David W. McConnell  
Anthony M. Sanzo  
Nancy A. Wynstra, Esq.

**Members Absent**

Leonard T. Ebert  
Robert L. Fletcher  
Teresa Heinz  
Alfred W. Martinelli  
Joseph Neubauer  
Thomas H. O'Brien  
Chryss O'Reilly  
David W. Sculley

\* Attendance via telephone conference



Special Meeting of the AHERF Board  
January 5, 1998  
Page 2

**I. OPENING OF THE MEETING**

The meeting was called to order at 10:30 a.m. by W.P. Snyder, III, who declared that a quorum was present and the meeting was competent to proceed. Mr. Snyder indicated that the complete report from the Committee on Trustees would be presented and discussed, with action being taken on the full report following a complete discussion. Nancy A. Wynstra, Esq. maintained the minutes of the meeting.

**II. ADDITIONS TO THE AGENDA**

Mr. Abdelhak indicated that a status report on the financial condition of the organization would be provided following action on the Report from the Committee on Trustees.

**III. REPORT FROM COMMITTEE ON TRUSTEES**

**A. Proposed Governance Structure [Exhibit 1]**

Mr. Nimick presented for consideration a proposed governance structure. Mr. Abdelhak explained that the changes in the current structure were being recommended to assure that trustee time is being effectively used, that there is a minimum of duplication in material presented to Boards and Committees, and that the corporate structure facilitates trustee involvement in strategic planning and decision making. Additionally, one of the goals of the governance restructuring is to create Boards and Committees of a size to permit meaningful discussion and dialogue. Mr. Abdelhak noted that over time the Corporate structure will be made as consistent as possible with the governance structure, consistent with various legal requirements, including requirements of existing bond financings. The proposed structure differs from the structure recommended in October, in that at that time it was proposed that Allegheny General Hospital (AGH) and Allegheny University Medical Centers (AUMC) would be merged with a new AUH - West. For the time being, it is now recommended that AGH and AUMC will retain separate Boards, with Allegheny University Hospitals - West serving as the Executive Committee for those entities and providing oversight. Numerous questions about the proposed governance structure were raised, with specific questions about the role of the regional Committee and the Executive Committee, and a lengthy discussion ensued.



Special Meeting of the AHERF Board  
January 5, 1998  
Page 3

**B. Amendments to Articles of Incorporation and Bylaws [Exhibit 2]**

Mr. Nimick presented for consideration conceptual changes to the organization's Bylaws and some of the Articles of Incorporation set forth in Exhibit 2, which would be necessary to compliment the proposed governance restructuring. Ms. Wynstra summarized the areas of the Bylaws and Articles of Incorporation which will require amendment to implement the proposed governance structure. Ms. Wynstra noted that changes in the legal structure will be implemented over time so that the legal structure mirrors the governance structure. Several questions about the proposed Bylaw changes were raised and addressed.

**C. Recommendations for Board and Committee Membership and Allegheny Officers for Calendar Year 1998 [Exhibit 3]**

Mr. Nimick presented for consideration recommendations for Board and Committee membership, Board and Committee Chairs and Allegheny Officers for Calendar Year 1998 as set forth in Exhibit 3.

Following discussion and upon motion duly made and seconded, the Board of Trustees approved the following resolution:

**RESOLVED**, that the Board of Trustees of Allegheny Health, Education and Research Foundation (AHERF), and of AHERF, acting as the Member of Allegheny General Hospital, Allegheny University Medical Centers, Allegheny-Singer Research Institute, Allegheny Integrated Health Group, Allegheny University of the Health Sciences, St. Christopher's Hospital for Children, and Allegheny University Hospitals, hereby adopts, in concept, the governance structure as outlined on Exhibit 1; and

**FURTHER RESOLVED**, that the Board hereby adopts, in concept, amendments to the Bylaws and the Articles of Incorporation as outlined in Exhibit 2; and

Special Meeting of the AHERF Board  
January 5, 1998  
Page 4

**FURTHER RESOLVED**, that the General Counsel is directed to fully develop the necessary changes to the corporate Bylaws of Allegheny General Hospital, Allegheny University Medical Centers, Allegheny-Singer Research Institute, Allegheny Integrated Health Group, Allegheny University of the Health Sciences, St. Christopher's Hospital for Children, and Allegheny University Hospitals, and Articles of Incorporation of the relevant entities as outlined in Exhibit 2 and return the detailed Bylaw amendments to the Board for final approval; and

**FURTHER RESOLVED**, that the Board approves the appointment of Board and Committee Members, the appointment of Board and Committee Chairs, and the election of Officers as set forth in Exhibit 3; and

**FURTHER RESOLVED**, that the General Counsel is directed to take such action as may be necessary, including the preparation and filing of any and all documents necessary to carry out the intent of this resolution; and

**FURTHER RESOLVED**, that the Secretary is directed to append to the original minutes of this meeting a copy of Exhibits 1, 2, and 3.

**D. Status Report on Financial Condition**

Mr. Abdelhak provided a status report on the current financial condition of the organization noting that declining revenues continue to result in lower payments than the actual cost per case, although the cost per case has been substantially reduced. He noted that we must evaluate everything we are currently doing and that, in his view, every program and activity, except our mission, our vision of excellence and our commitment to personal service, being up for reevaluation. He noted that we are in an industry where we must offer services on a personal service basis but be paid as a commodity and that we must look at other industries which have faced similar problems and see what has worked for them. Ultimately he said we will need to make very difficult decisions about what to continue and what to discontinue. He noted that among the factors to be considered in making this decision are which programs are or can be made to be programs of distinction and high quality with a significant

Special Meeting of the AHERF Board  
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market position and low costs. He noted that two top level management teams, one in the East and one in the West, are currently reviewing everything in order to make recommendations as to what should be discontinued. A fundamental fact, he said, is that we cannot continue to subsidize as many programs as we currently subsidize. During the discussion the Trustees emphasized that we must never think of ourselves as a commodity and that we should seek to better educate the public as to the real cost of the level and quality of service that they want. It was also noted that we need to see how we can improve our information systems so that management has better and more current information upon which to make its evaluation.

Mr. Abdelhak also noted that some portion of our unrestricted assets have been liquidated in order to significantly reduce the level of payables in both Pittsburgh and Philadelphia and that he has instructed that the level of payables must be maintained on a much more current level than has been the case over the past year. He also noted that we are looking into the possibility of leveraging our receivables.

IV. ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,

---

Nancy A. Wynstra, Esq.  
Secretary

Noted Attachments: Meeting Notice, Exhibits 1, 2 and 3.

TAB 253

Anthony M. Sanzo  
President and  
Chief Executive Officer



320 East North Avenue  
Pittsburgh, PA 15212-4772  
412-359-3005  
412-359-3888 Fax

Broad & Vine Streets  
Mail Stop 400  
Philadelphia, PA 19102-1192  
215-762-7765  
215-762-1754 Fax

June 26, 1998

David W. McConnell  
Senior Vice President and CFO  
Allegheny Health, Education and  
Research Foundation  
120 Fifth Avenue Place  
Pittsburgh, PA 15222

Dear Mr. McConnell:

Please be advised that effective June 26, 1998, your employment with Allegheny Health, Education and Research Foundation (the "Foundation") is terminated. In addition, you have been removed as an officer of the Foundation effective June 26, 1998. You should know that the Executive Committee has also directed the officers of the Foundation to use the Foundation's membership rights under the respective bylaws of the Foundation's subsidiaries and affiliates to remove you as an officer or member of the Board of Trustees of any affiliate or subsidiary. Accordingly, you will have no relationship with the Foundation and/or any of its affiliates or subsidiaries after today.

I have been instructed to review this matter with counsel before discussing resolution of your employment agreement with you. I will do so promptly and direct counsel to contact you. If you retain counsel, please advise.

No public announcement has been made, but the Foundation believes that an announcement should be made within the next 48 hours. The Foundation would like to work with you to determine if a mutually satisfactory public announcement can be prepared. Please let me know today if you would like to work with us in this regard.

Sincerely,

**COPY**  
Anthony M. Sanzo

AMS:dls

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